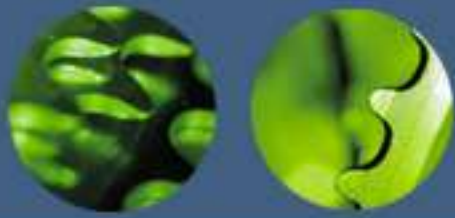




# Supply and Demand

A close-up, blue-tinted image of interlocking mechanical gears. The focus is on the teeth of the gears, showing the intricate details of the metal and the way they mesh together. The background is blurred, emphasizing the foreground gears.

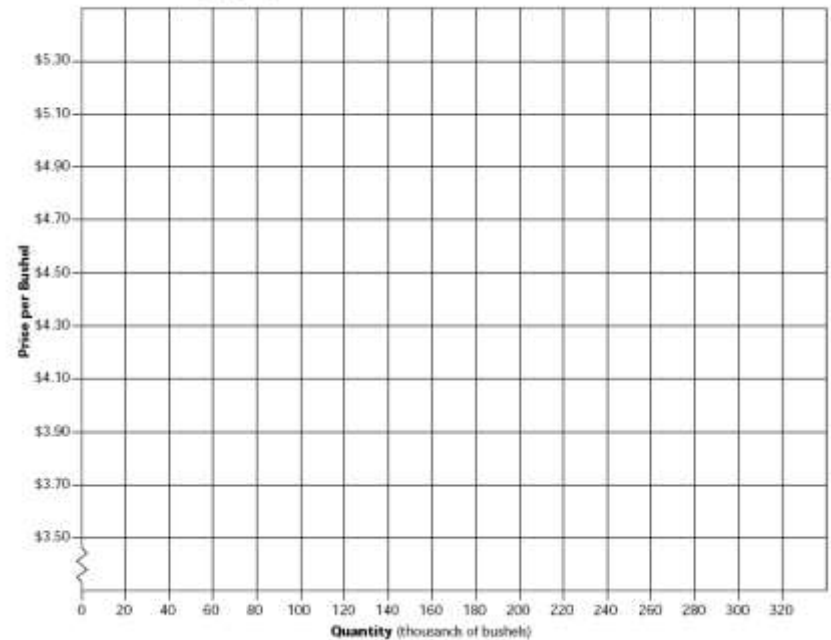
The Basics

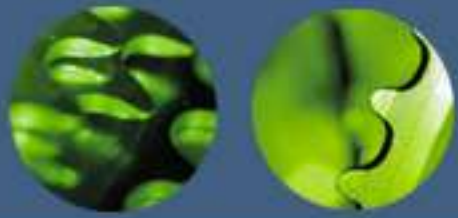


- **Demand Schedule**
- Price QTY
- \$3.50 320
- \$3.70 300
- \$3.90 280
- \$4.10 260
- \$4.30 240
- \$4.50 200
- \$4.70 160
- \$4.90 120
- \$5.10 80
- \$5.30 40

Supply schedule	
Price	QTY
\$3.50	40
\$3.70	100
\$3.90	160
\$4.10	200
\$4.30	240
\$4.50	260
\$4.70	280
\$4.90	300
\$5.10	320

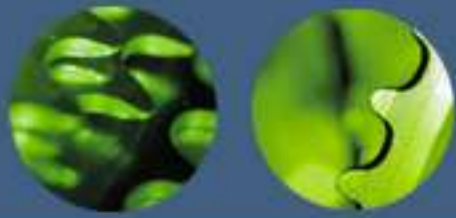
**Wheat Supply and Demand**





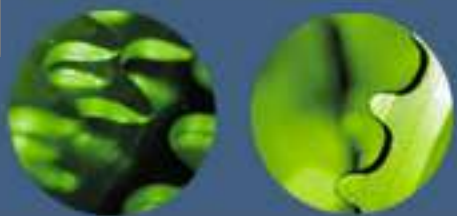
## **What are three tasks that the price system performs for our economy?**

1. Rationing of goods and services
2. Determination of wages.
3. Allocation of limited resources.

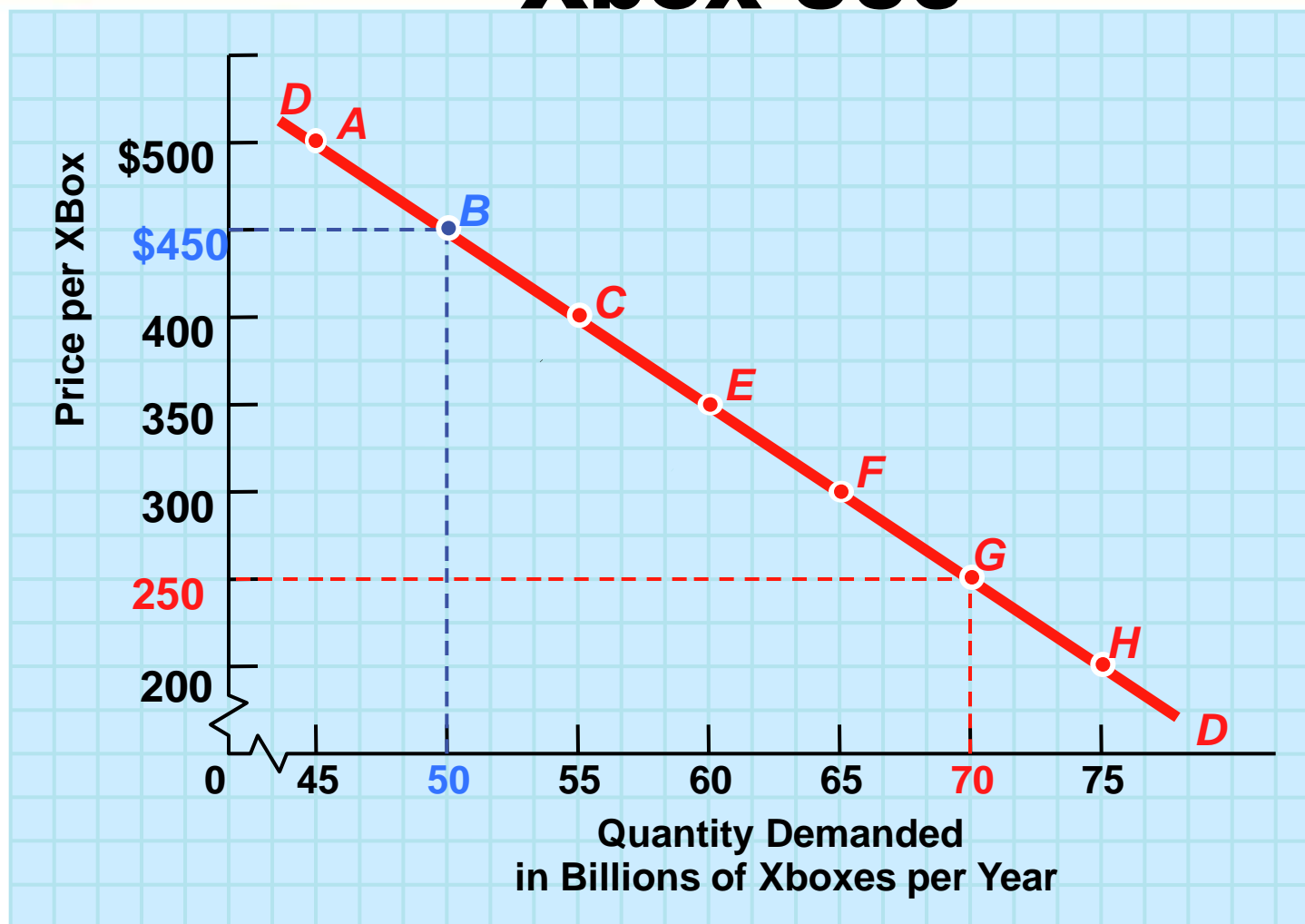


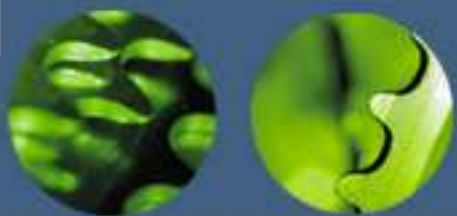
# Laws of Supply and Demand

- What is demand?
- The willingness to buy a good or service at all prices
- What is the law of demand?
- If nothing else changes, the quantity demand of a good or service is greater at lower prices than higher.
- What is supply?
- Supply is the quantity of a good or service a firm is willing to produce at all prices.
- What is the law of supply?
- If nothing else changes, firms are willing to supply a greater quantity of a good or service at higher prices than lower.

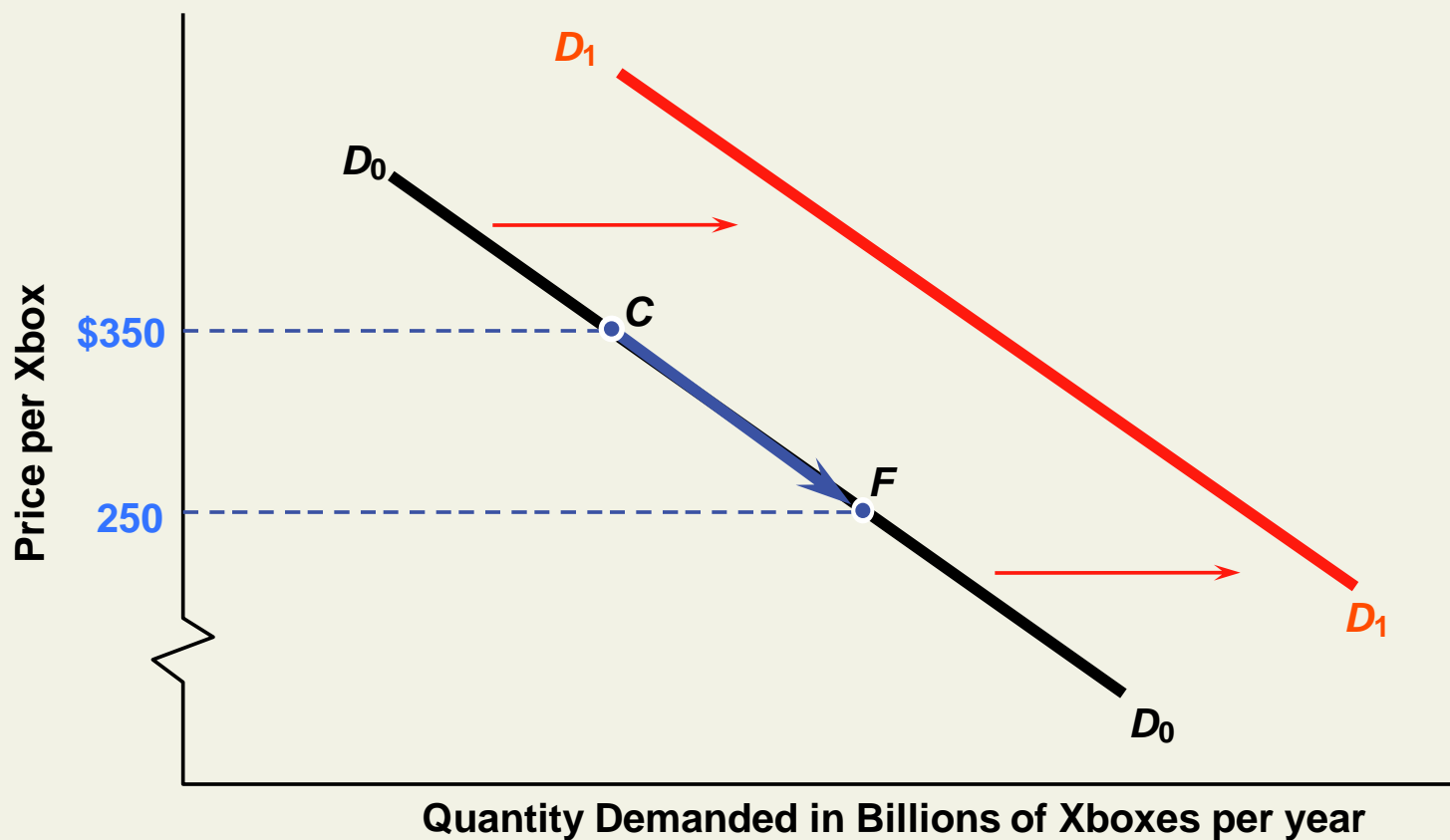


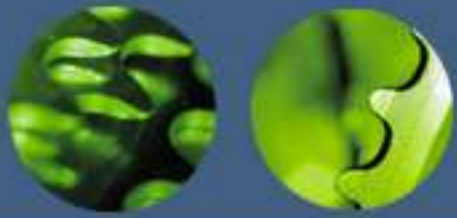
# Demand Curve for Xbox 360





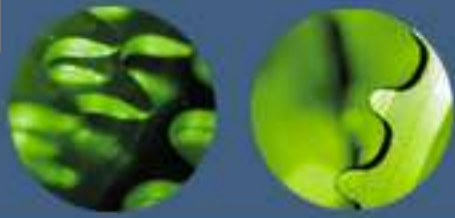
## Movement along the curve versus shifts in the demand curve



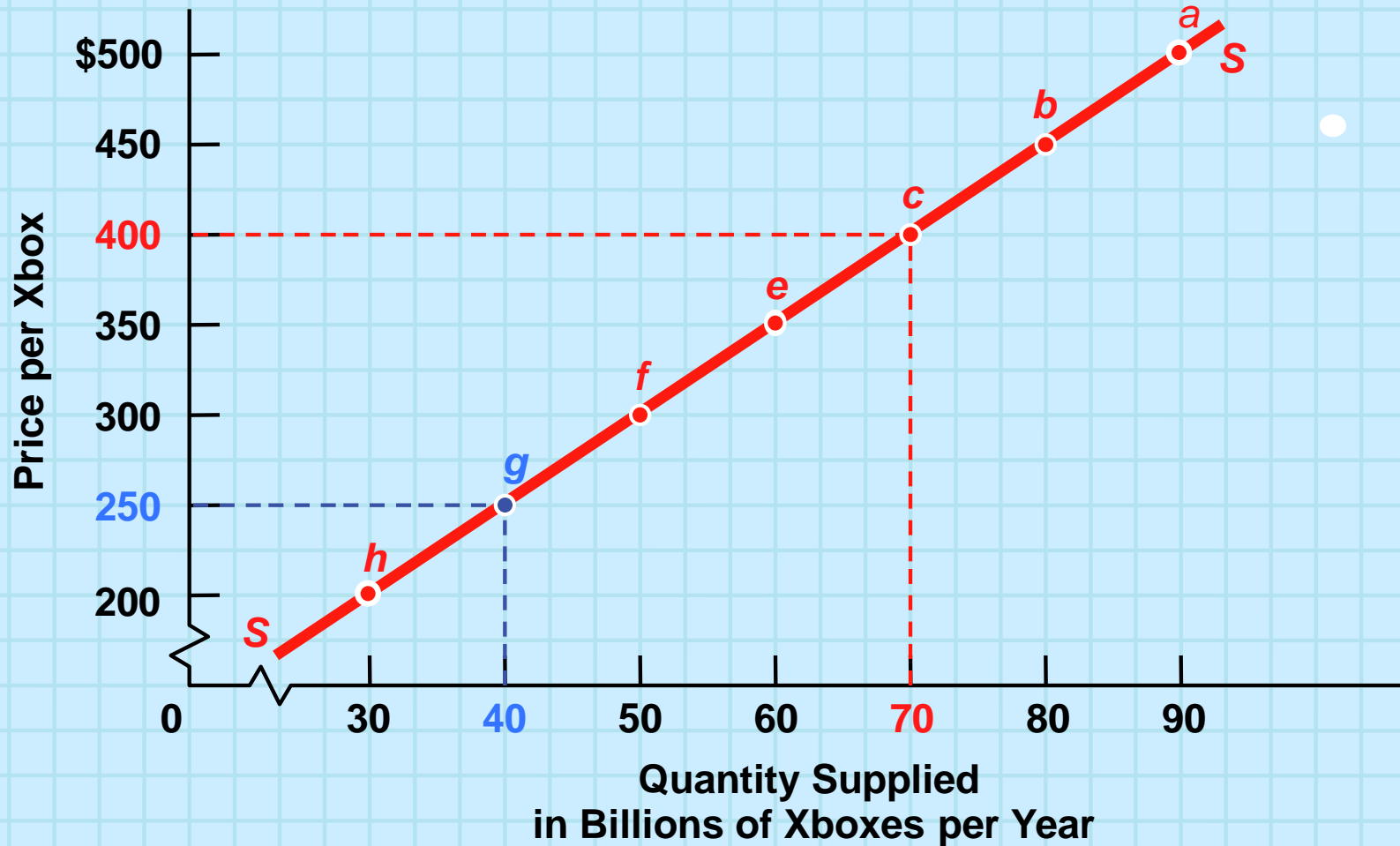


## Determinants of Demand

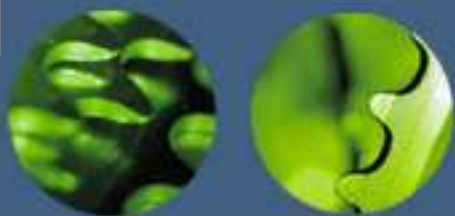
- **P**rice of related goods ( substitute or complementary)
- **O**utlook (consumer expectations of future income and prices)
- **I**ncome (normal goods versus inferior goods)
- **N**umber of potential customers (pop.of market)
- **T**aste (fads or fashions)



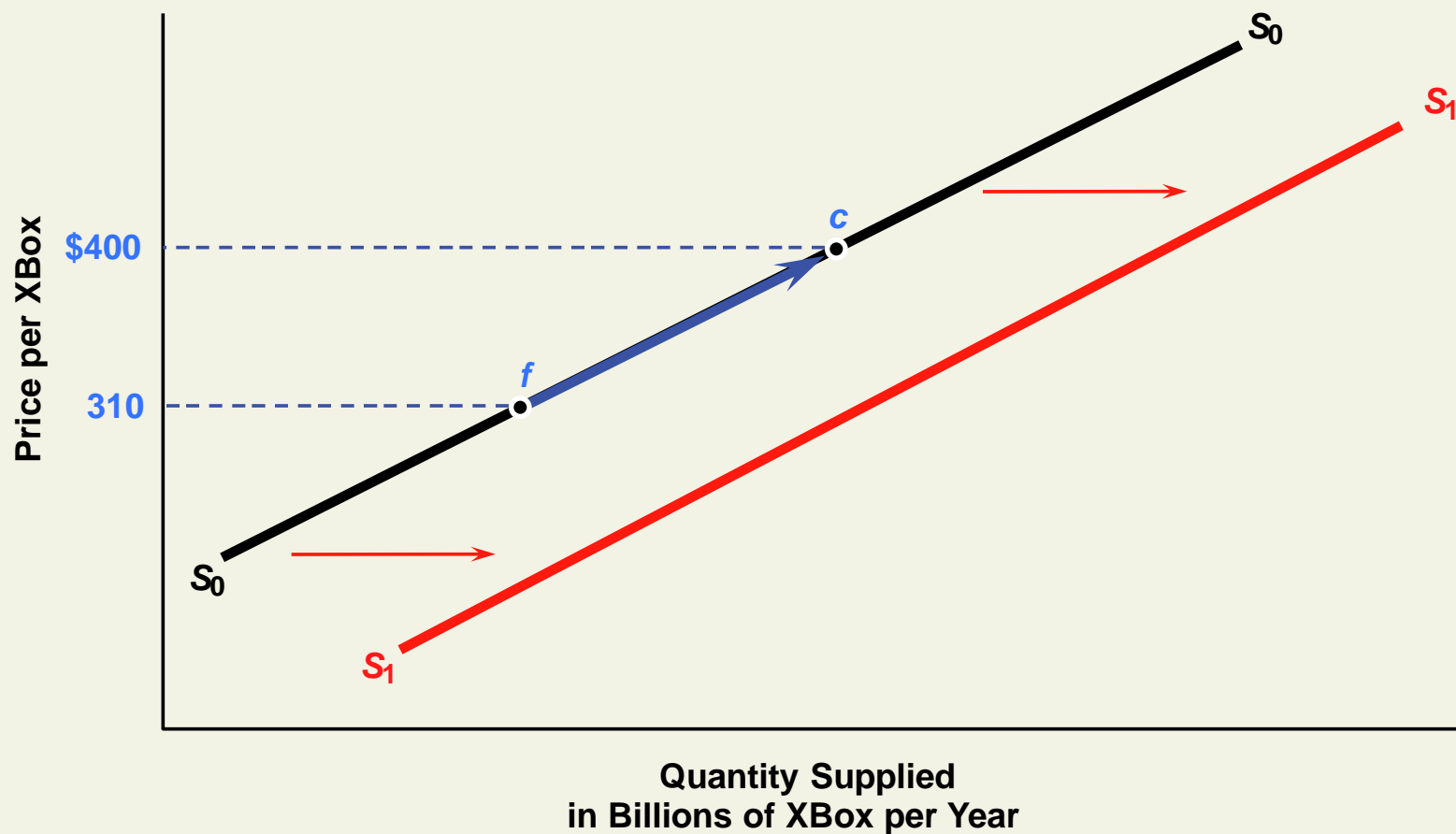
# Supply Curve for Xbox 360

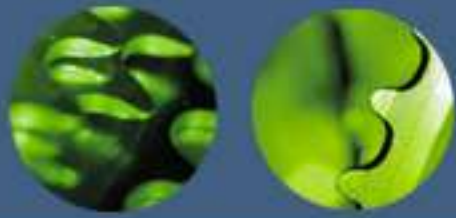






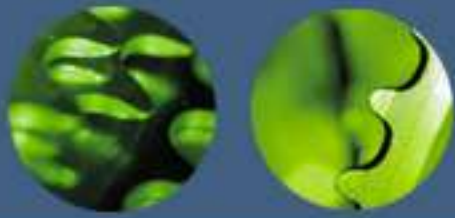
# Movements along versus Shifts of a Supply Curve





# Determinants of Supply

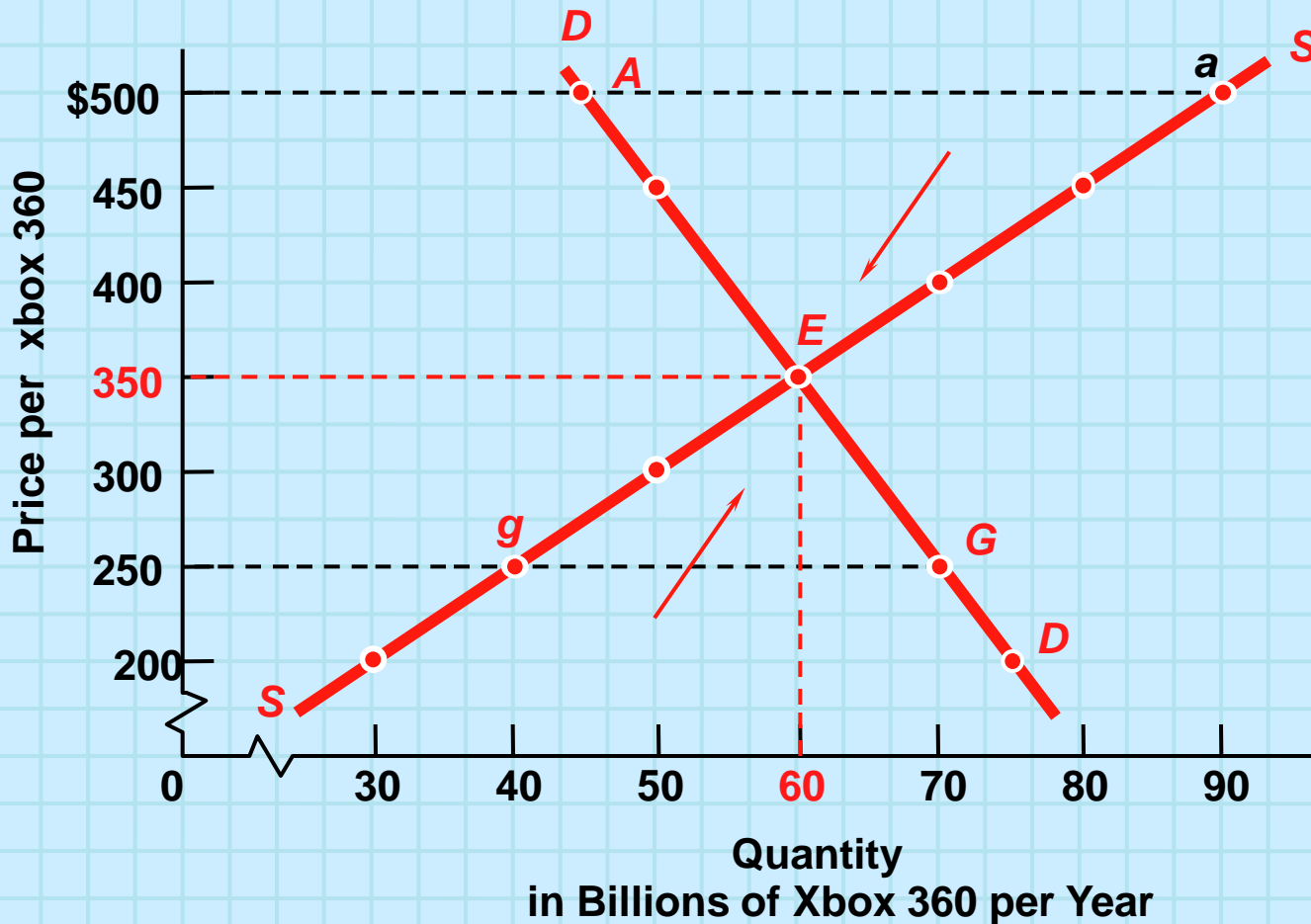
- **P**roductivity (Improvements in machines and production processes of a good or service.)
- **I**ntputs ( Change in the price of inputs required to produce the good or service.)
- **G**overnment Actions (Subsidies, Taxes and Regulations)
- **T**echnology (Improvements in machines and production processes of a good or service)
- **O**utputs (Price changes in other products produced by the firm)
- **E**xpectations (outlook of future prices and profits)
- **S**ize of Industry (Number of firms in the industry)

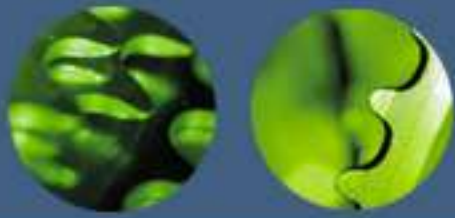


# Equilibrium

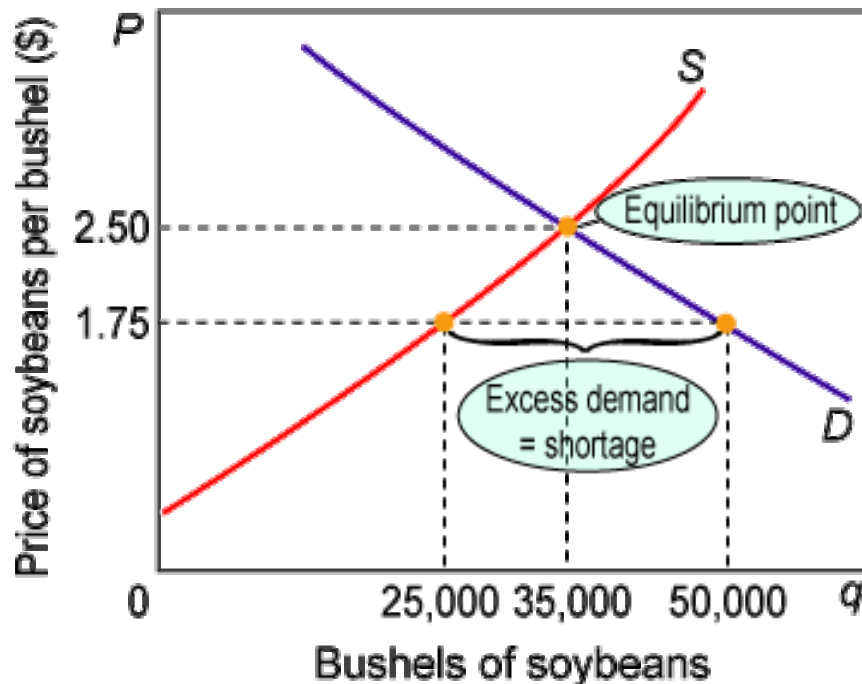
- **Equilibrium:** The condition that exists when quantity supplied and quantity demanded are equal. At equilibrium, there is no tendency for price to change.
- **Shortage** or excess demand: The condition that exists when quantity demanded exceeds quantity supplied at the current price.
- **Surplus** or excess supply: The condition that exists when quantity supplied exceeds quantity demanded at the current price.

# Supply-Demand Market Equilibrium

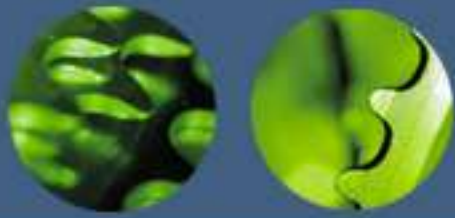




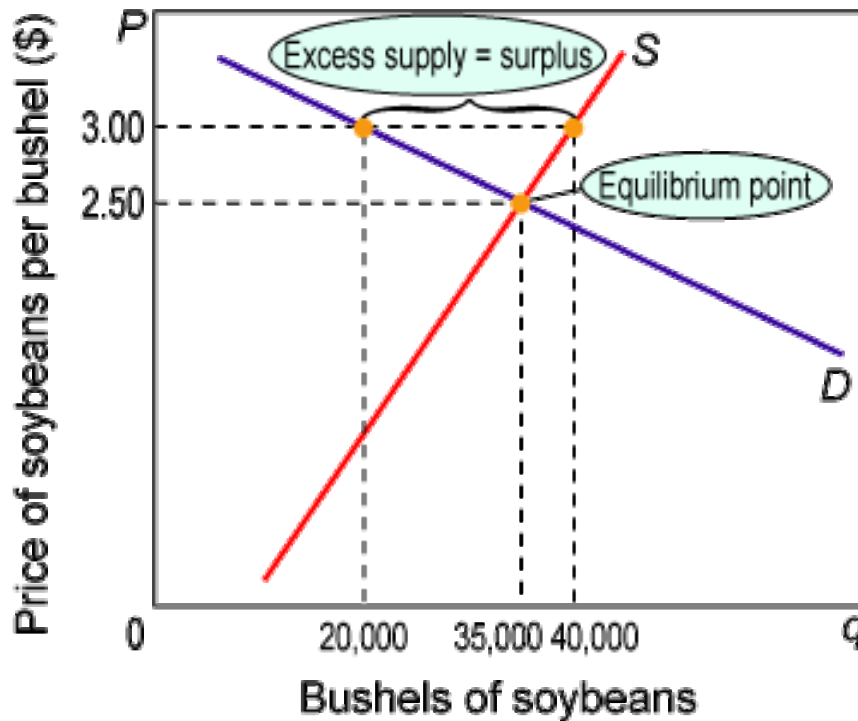
# Excess Demand



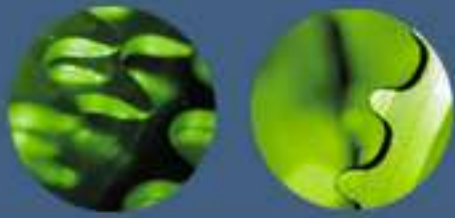
- **Excess demand**, or **shortage**, is the condition that exists when quantity demanded exceeds quantity supplied at the current price.
- When quantity demanded exceeds quantity supplied, price tends to rise until equilibrium is restored.



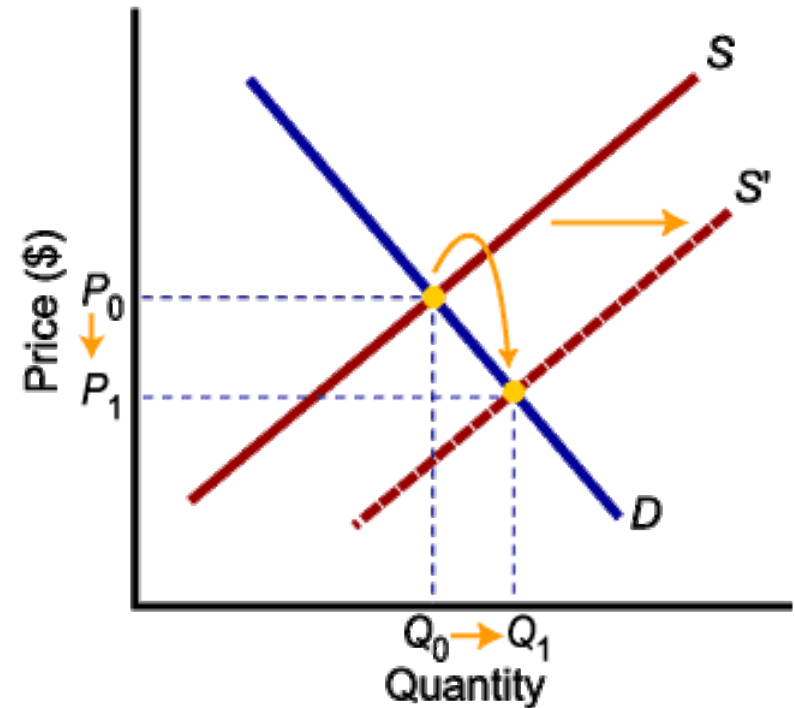
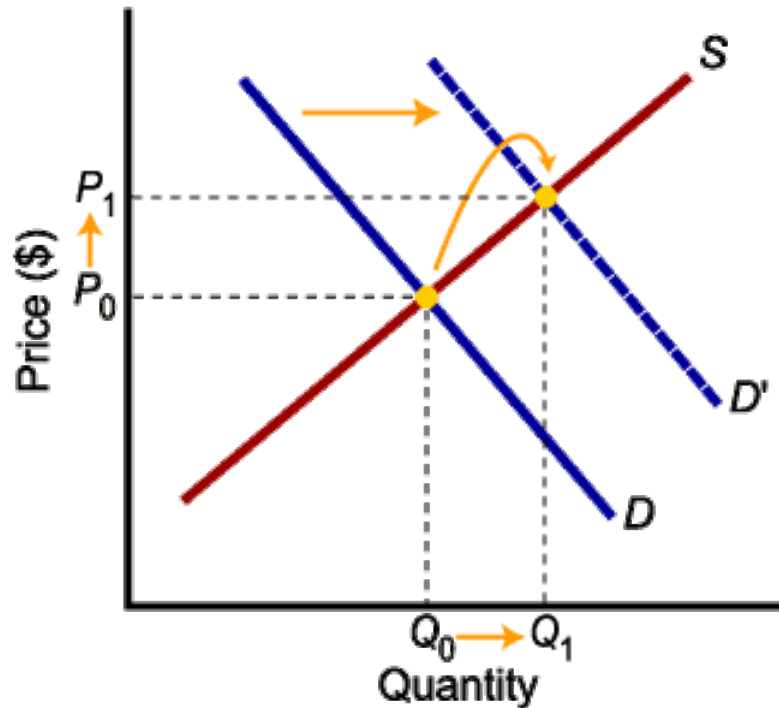
# Excess Supply



- **Excess supply**, or **surplus**, is the condition that exists when quantity supplied exceeds quantity demanded at the current price.
- When quantity supplied exceeds quantity demanded, price tends to fall until equilibrium is restored.

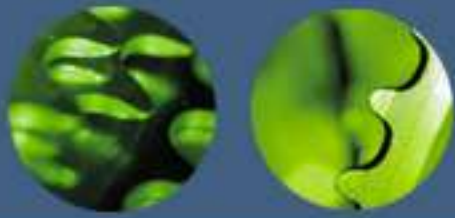


# Changes in Equilibrium

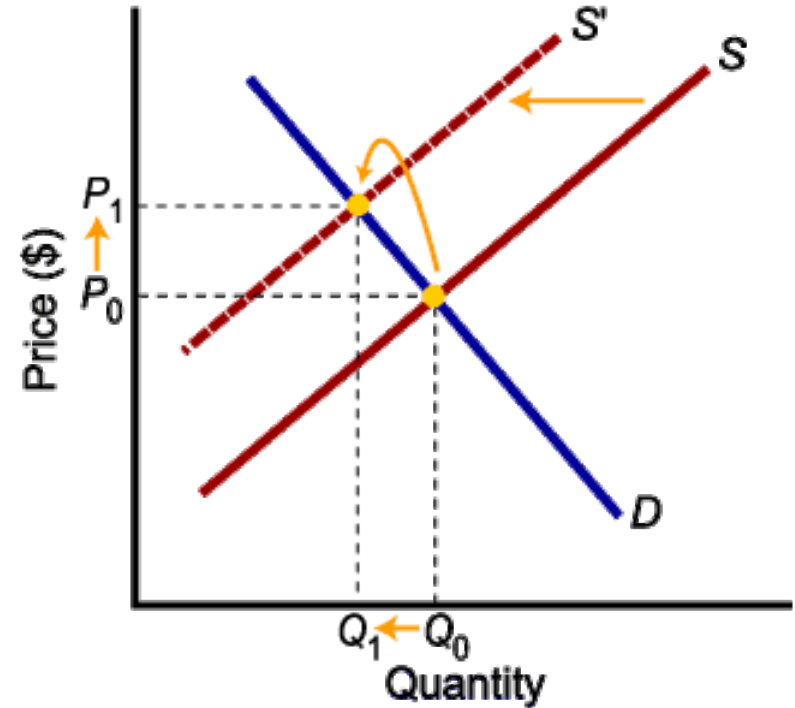
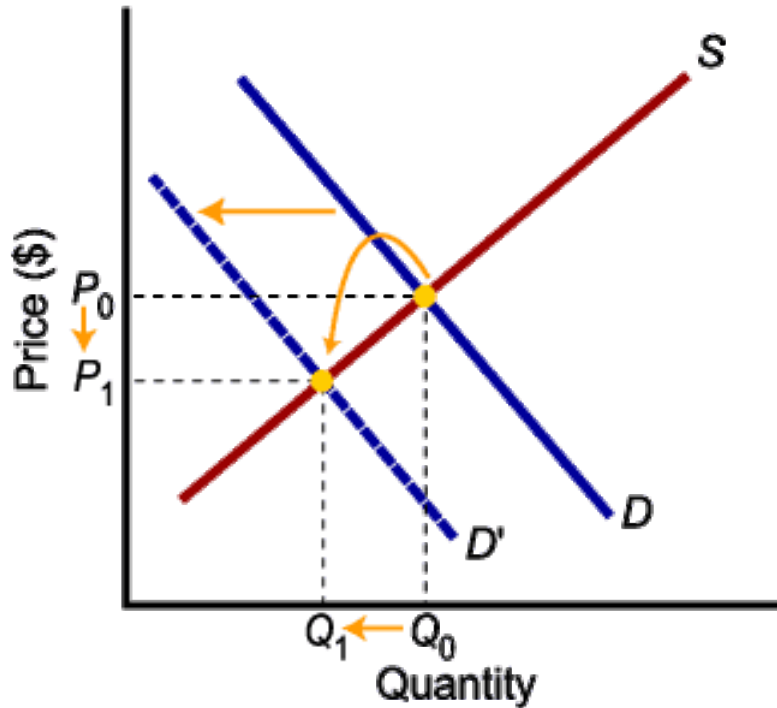


- **Higher demand** leads to higher equilibrium price and higher equilibrium quantity.

- **Higher supply** leads to lower equilibrium price and higher equilibrium quantity.



# Changes in Equilibrium



- ***Lower demand*** leads to lower price and lower quantity exchanged.

- ***Lower supply*** leads to higher price and lower quantity exchanged.